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Alberta's never-ending nightmare

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Body

Albertans are living a five-year nightmare that just keeps getting worse. That nightmare started in 2015 when our newly elected Prime Minster Justin Trudeau appointed Gerald Butts, head of the Canadian arm of the anti-fossil fuel World Wildlife Fund, as his principal secretary and key adviser. A year later, Trudeau cancelled the previously approved Northern Gateway Pipeline destined for the B.C. port of Prince Rupert. Then in early 2017, he made his infamous visit to Alberta in which he advocated "phase-out of the oilsands." Later that year came the demise of the Energy East Pipeline to the New Brunswick port of Moncton when, after regulatory hearings and consultations had been completed, Trudeau acceded to Quebec's objections by inserting new, deliberately impossible conditions.

With no access to tidewater, Canadian oil producers were left hostage to American refiners at captive market discounts as high as $2 billion per month. Had the cancelled pipelines been built, those lost tens of billions of dollars would have been on industry balance sheets. Instead, most companies were already on the edge of a financial precipice when the COVID-19 crisis slashed world oil demand. Their only hope was government aid, a prospect vehemently opposed by the anti-fossil fuel groups, most of whom make their living off the public purse.

On March 25, a collection of 108 groups comprising public service unions, environmentalists such as the Sierra Club and Greenpeace, and civil disobedience advocates Extinction Rebellion, ***Climate Justice*** and Climate Strike sent a letter to the prime minister stating: "Giving billions of dollars to failing oil and gas companies ... only prolongs reliance on fossil fuels." Then came another letter from 265 Canadian university professors arguing the industry should be left to die and the funds go instead to green-energy development.

Those letter-writers may have got their way. But three days before the prime minister's April 17 announcement, Alberta oil prices went below zero, pushing many companies off the precipice. So Ottawa did act. But the help it provided was both modest and selective.

The Business Development Bank of Canada announced $15 million to $60 million in one-year loans at "full commercial interest rates" for qualifying small and medium-sized companies. This does provide a temporary reprieve for some companies but it's hard to think of a more modest measure for an industry employing half a million people facing existential crisis. By comparison, in the 2009 Ontario auto industry crisis, the federal government injected $20 billion (in 2020 dollars) - without repayment requirements - to save just 22,000 jobs.

The oil and gas industry has long been the most important engine of Canada's economy. From 2014-2018 it contributed over $100 billion to GDP, tens of billions in direct payments to governments, and income taxes paid by those half a million employees. Average annual capital spending of $40 billion sourced equipment across the country. Moreover, Alberta has long been the largest contributor to federal revenues. A recent Fraser Institute study found that from 2014 to 2018 Alberta's net contribution to Ottawa was $94 billion, $36 billion more than Ontario's, though Ontario's population is three times Alberta's.

In 2019, despite captive-market discounts, oil and gas and its derivatives accounted for US$115 billion in net exports (exports minus imports) and five of Canada's top 10 net-export goods. And here is a dramatic illustration of Canada's dependency on our bountiful resource endowment. Of these top-10 net exports, seven are natural resources and the other three are agricultural. Vehicles aren't among the top-10 net exports because we import more than we export. Korea's economy bounced back from COVID-19 in part because it's a manufacturing powerhouse. Canada's recovery will depend on government policies that actively encourage, rather than impede, resource investment.

Over the past few years, production growth from U.S. oil shale and Canadian oilsands have substantially reduced the Saudi Arabian and Russian share of global oil markets. The COVID-19 collapse in oil demand hands Vladimir Putin and Crown Prince Mohammed bin Salman a perfect opportunity to achieve their long-standing goal of destroying the U.S. and Canadian industries. This would be a blow to the U.S. but America's world-leading industrial diversification would carry it through. By contrast, resource-dependent Canada would lose its most important industry. And an entire province would move from Canada's biggest net economic contributor to its most impoverished.

The COVID-19 experience also teaches us the folly of depending on other countries for critical supplies. Energy is the most important of those. The Energy East cancellation has left Quebec and the Atlantic provinces dependent on oil now supplied mainly by - guess who? - Saudi Arabia. If that decision could be reversed, Energy East could be fasttracked, as it mostly involves converting an existing natural gas pipeline to oil.

Canada should immediately engage the U.S. administration to set a viable minimum North American benchmark oil price and phase in a ban on offshore imports. There is no time to lose. Every day that passes sees further weakening of the industry that is most important to restoring government revenues. And any hope Albertans have of waking from their tragic five-year nightmare diminishes.

Financial Post Gwyn Morgan is a retired business leader who has been a director of five global corporations.

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